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A. Small Troubled Spots (Latin America)

1. Three new governments in three months by military coups.
 - (a) Peru (Oct. '48) - definitely Rightist, supported by strong conservative elements within and outside administration.
 - (b) Venezuela (Nov. '48) - military acted to protect own position - now have growing conservative support - gave anti-communism as reason for action but no moves against Communists as yet.
 - (c) El Salvador (Dec. '48) - Junta claims to be liberal - promises earlier return constitutional government.
2. An older fourth, Costa Rica (May '48) - Junta professed paternal liberalism and constitutional aims - no action yet in this direction.
3. Success of these coups may encourage imitators. Situation possibly ripening in
 - (a) Ecuador - popular discontent over economic situation - growing dissatisfaction of army.
 - (b) Bolivia - conspiring army officers backed by Rightist politicians and exiles.
 - (c) Paraguay - government and army split by factions but new alignments could lead to successful coup.
 - (d) Chile, Guatemala - recent military plots suppressed.
4. All new governments claim to be pro-US and anti-Communist.
5. In no case - actual or possible - are present US security interests seriously affected.

B. The Big Problem: Relative US-USSR Power Position

The balance sheet (Jan. 1949) of these positions is the context for all Europeans and Asiatic situations.

1. US probably up in Europe.
 - (a) ERP has laid groundwork for rebuilding European morale even if political stability not certainly achieved.
 - (b) Anti-communist feeling more clearly developed -
 - (1) Western solidarity in UN General Assembly.
 - (2) Western labor rejecting Communist contacts.
 - (3) Defense agreements building up toward Pact.
 - (c) Local Communists put on defensive as enemies to national interests.
 - * (1) NB - recent "accommodation possible between West-East" speech of Marcel Cachin in French Assembly.

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* Don't take this too seriously - probably only tactical.

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- (d) Some signs Soviet difficulties
 - (1) Economic - Satellite production; Soviet Zone Germany.
 - (2) Political - reduced prestige Germany; national sentiments
Satellites; bad example Tito.
- (e) Berlin air-lift, highlighting US firmness, has psychological value
in upping US influence.

2. USSR probably up in Asia.

- (a) Chinese Communist success gives wider scope for action.
 - (1) Increased difficulty effective US counter-action.
 - (2) Makes position South Korea untenable in long-run.
- (b) Dutch "action" Indonesia prolongs instability Asiatic colonial areas.
European prestige at rock-bottom - US easily identified in propaganda
as imperialist fellow-traveler.
- (c) Pan Asian Conference has possibility becoming bloc with powerful political
potential and presently uncertain alignment.

3. Middle East balance-sheet uncertain. Continued unsettlement drains US-UK
resources and opens way for USSR exploitation - though not many signs
present yet.

C. USSR - war in near future? Answer: Barring accidents, not likely.

Reasons: 1. USSR still gaining globally on political-sociological front - no
call to support by dangerous military operations.

(a) Even in Europe, though immediate balance favors US, Soviet-
Communist potential for continuing "cold war" far from exhausted.

2. Communist (Marxist) doctrine - assuming inevitable collapse capi-
talist (US) society - does not automatically encourage military adventures.
Asserts instead value of revolutionary ("cold war") method for speeding up
collapse.

3. USSR-Satellite economy not presently prepared to support full-scale
global war. USSR production - steel, transportation, agriculture, heavy con-
struction, machine tools, basic heavy machinery failed (1948) to reach 1940
levels. Chemicals, petroleum, coal, aluminum, electric power are above 1940
levels; but effective application to war potential impeded by deficiencies
in other categories.

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LATIN AMERICA

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1. The recent revolutionary upsets in government in Latin America, while disturbing to the tranquility of the Western Hemisphere, in reality have very slight influence on the security of the United States. There is no evidence of any Communist backing--the changes in government were rather caused by more conservative elements (El Salvador expelled the Communists) and are a result of economic conditions rather than political. There may be more upsets in the near future as the President of Ecuador has recently stopped an army revolt by buying off the non-commissioned Army officers with an increase in pay. Communists may be expected to attempt to take advantage of any disturbed conditions, even though those conditions were caused by other groups.

Because of

2. Unstable conditions now existing *in* other Latin American countries may see possible revolts in the near future. For example, in Bolivia, Army officers, backed by rightist politicians in exile, are conspiring against the government. In Paraguay the government *civil army* *Ad* split into various factions but new alignments could lead to a successful coup. In Chile and Guatemala, military plots recently have been suppressed, but here again new measures may come up. In none of these cases, however, would present United States security interests be seriously affected.

CHINA

1. No evidence that Chinese Communists are other than firmly attached ^{to} and identical with those of the Soviet Union, and their aims are being pursued ^{consultation} in ~~concentration~~ and agreement with the Soviet Union.

2. However, what may happen afterwards--whether deviationism will occur cannot be foretold. The results of the Communist take-over of China are:

a. Military. All of continental China will be available for reconnaissance and preparation of bases and, on the outbreak of war, even for occupation by Soviet forces. Conversely, any such bases will be denied the United States.

b. Morale. The morale of armed Communists in other countries--Malaya, French Indo-China, Burma and Indonesia--will be considerably raised and the prospects for aid increased. ^{from USSR + China}

c. Political. (1) The ill-educated, politically immature and timid native populations of the East will get a great psychological ^{surge} ~~lift~~ out of the apparently irresistible progress of Communism. Native populations will tend to avoid overt anti-Communist activities and, instead, will take out insurance for the future by some form of Communist ticket.

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(2) There will be an increase in subversive activity in other Asiatic countries and even some form of material aid. This last is not so probable as the Chinese do not have any surpluses to dispose of. These efforts should be particularly marked in French Indo-China, Burma, Hong Kong, etc.

(3) With a Communist Government in China, Chinese foreign diplomatic missions and consular posts may become centers for dissemination of Communist propaganda.

d. Economic. For the initial period after the take-over by the Communists, foreign enterprises in China would probably be disturbed very little. However, there probably would be increasing interference and restrictions imposed on foreign, particularly American, businesses as time goes on.

e. Rice. Rice is the key to Asia's economy. Native Communists, if they take over other Southeast Asian countries, can reduce the export of rice from the surplus countries to the deficit countries to foment unrest and a change of government in all non-Communist areas. (e.g. The rice exports in 1948 were only 200,000 tons as compared with an annual pre-war export of 1,300,000 tons.) If the amount of rice exports from Siam, Burma and Indo-China ^(the surplus producers) were substantially reduced, acute embarrassment could be caused to the deficit countries--India, Malaya, Ceylon, Indonesia, the Philippines--and also to Japan.

INDONESIA

Although Stalin Communist received a severe setback with the successful repression of the Moeso Communist rebellion , the recent Dutch police action is likely to unite all nationalistic elements and to tend to swing them toward Communism unless not only law and order are promptly restored but the nationalistic elements are satisfied by a ^{in fact} ~~pseudo~~ political agreement.

SIAM

Communist domination of China may have a deep effect on Siam which up to the present has held down rather successfully Communist influence. The Government of Siam probably will not be able to resist new Communist pressures emanating from China and the other states unless tangible British and American support for anti-Communist measures are forthcoming.

FRENCH INDO-CHINA

The French are having an extremely difficult time now in an attempt to pacify Indo-China. Were China to become Communist and support even moderately the Viet Nam in Indo China, the French forces conceivably might have to withdraw to the Southern half of Indo-China and leave the Northern half to the Viet Minh Communist Government. Such a withdrawal would mean the abandonment of the greater part of what industry is in Indo-China and, of course, provide the Soviets with potential bases still farther south as well as an extreme loss of European prestige.

BURMA

Chinese Communist successes would encourage Burmese Communists even though at present their influence is small and has been declining. The great danger would come from the Burmese Socialist Party which is now the backbone of the Burmese Government and since it is essentially Marxist in program could easily amalgamate with the Communists. Any greatly unsettled conditions in Burma would lead to an even greater drop in rice exports and thus start a vicious circle throughout Eastern Asia.

THE PHILIPPINES

Although Communists are not numerically very great in the Philippines, were the Communists to dominate China differences with the Philippine Government and China would be aggravated and the Hukbalahaps would become more recognizably Communist-inspired and controlled.

USSR

1. The greatest problem still confronting the United States with regard to its security interests is, of course, the problem with Russia. The Western Block has gained considerable ground and prestige in Europe by virtue of the ERP, the western solidarity in the United Nations, the Western Labor Union rejection of Communist contacts, and the build up toward a North Atlantic Pact as well as the Berlin airlift--~~all of which~~ has reduced the numbers and influence of the USSR among the Germans. All of the above represents gains for United States security in the present cold war with Russia.

2. In addition there are evidences that the Soviets are having economic difficulties with the Satellite production as well as with the carrying out of their own economic plans. Soviet steel production is still below what it was in 1940, and, although a figure of 25 million tons has been set for 1950, present indications are that this figure will not be met. Soviet petroleum production at this time is barely equal to what might be needed in case of war, but more than 90% of such production comes from the oil fields in the Caucasus and Rumania, both of which fields are open to attack in case active military operations should come. Since the petroleum production is barely sufficient for Soviet military operations, ^{damage} any ~~danger~~ to either of these fields would be felt immediately.

3. In Asia it is estimated that the Soviets have acquired advantages over the United States because of the Chinese Communist successes and the Dutch action in Indonesia. Further, the Pan-Asian conference called by NEHRU has the possibility of becoming a block with a powerful political potential. It must be pointed out, however, that so far this is only a potential and has not yet developed.

4. In the Middle East, the present signs point to an end of the unsettlement which has been a drain on United States and United Kingdom resources and influence. If stability can be arrived at in the present peace talks between the Israeli and the Arabs, it should be favorable to the United States *and the Western powers.*

5. As for the question of whether there will be a war with the USSR in the near future, the answer is that, barring accidents, it is not likely. The following reasons will support that statement:

a. The USSR is still not being defeated globally on the political-sociological front, and, therefore, there is no reason to resort to dangerous military operations.

b. The Communist doctrine assumes that a collapse of capitalistic society is inevitable--that such a capitalistic society carries within itself the seeds of its own decay.

c. The USSR-Satellite economy is not presently prepared to support full-scale global war. The USSR-Satellite production of steel, transportation, agriculture, heavy industry, machine tools is still below 1940 levels. Chemicals, coal, aluminum and electric power are barely above 1940 levels, but in no case have sufficiently high levels been reached to support extensive military operations.